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American Banker

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VOL. CLIII NO. 44 Friday, March 4, 1988 153rd Year

Today

The Continental Illinois case goes to trial on Tuesday four years after the first indictments. Some believe legal entanglements that have delayed the trial could weaken the memories of witnesses and prove a serious liability for the government's case. Among the central questions is did the three defendants intend to defraud Continental and scheme to violate its lending policies. 2

Foreign banks are getting stronger in currency dealing in Japan since government restrictions have largely driven Japanese banks out of the business. Citicorp, First Chicago Corp., and J.P. Morgan & Co. are considered the major beneficiaries. 3

Disgruntled stockholder Fredrick J. Erck is expected to withhold his support for the recapitalization plan of First City Bancorporation of Texas. A. Robert Abboud and other new owners, he says, could reap extraordinary benefits under the plan. 16

Executive Changes 10
Global People 10
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COMMENT

Suspending stock dividend payments may help banks — particularly the money centers — to conserve precious capital, writes Christopher C. Ohman. He argues that it is futile for banks to pay dearly to raise capital, and then promptly give it away in the form of dividends. The opposing view, from an article in *First Boston Equity Research*, maintains that dividend cuts could undermine investor confidence in the financial system. 4

THRIFTS & MORTGAGES

Some Wall Street dealers are refusing to sell asset-backed securities and other obligations to bank traders at a traditional discount, according to Ralph Horn, head of trading at First Tennessee Bank, Memphis. 3

Leading suitors for Georgia's largest thrift are Barnett Banks Inc., Jacksonville, Fla.; Houston Industries Inc.; and Commercial Credit Co., Baltimore. All have informed Fuqua Industries Inc. of their interest in acquiring its subsidiary, Georgia Federal Bank, which has $3.8 billion in assets. 6

Freddie Mac's budget for seven convention theme parties this year is $339,316. Unlike most federal agencies, the congressionally chartered corporation has aggressively promoted itself through such parties since 1984. 6

Thrift mergers in Massachusetts are expected to pick up, particularly on Boston's South Shore, thanks to lower stock prices and lower expectations from potential sellers. 7

If thrifts adopt the relatively simple calculation known as net interest margin, investors will find thrifts more appealing, writes Jerome I. Baron of Prudential-Bache Securities. 8

Quote

I'm not the troublemaker sort.

Fredrick J. Erck, the stockholder who has objected to the proposed recapitalization of First City Bancorporation of Texas Inc. [Page 16]

Senate Panel Backs New Powers for Banks

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — The banking industry rolled up a huge victory Wednesday night when a Senate panel overwhelmingly approved a bill that could lead to full repeal of the Depression-era Glass-Steagall Act. But bankers already are casting a wary eye at the House, where they face sterner tests.

The bill permits banks to underwrite any type of security, except corporate equities, within six months of enactment. It also requires a vote on corporate stock underwriting no later than 1991.

Committee staffers say the bill could go to the Senate floor as early as next week. It is expected to pass by a wide margin.

In the House, the measure must go through two committees — Banking, and Energy and Commerce — neither considered friendly to expanded bank powers. Observers predict that the House will water down the securities powers authorized by the Senate and tighten some of the restrictions.

"We have gone one-third the way up Mt. Everest," said J. Denis O'Toole, chief congressional lobbyist for the American Bankers Association.

Moreover, he said, if the House committees take too much time drafting and reporting out legislation, the bill will begin to run up against the timing complications of a presidential election year.

Securities: Page 15 ➡

Banking Bill Highlights
Page 15

Who's the Fairest of Them All?

Banks were asked to rate Visa and MasterCard in each of the following categories as very poor, poor, satisfactory, good, or excellent

	Satisfactory		Good		Excellent	
	Visa	MC	Visa	MC	Visa	MC
Advertising to consumers	7	16	27	25	22	9
Technical and back office support	13	19	30	28	11	3
Product development	24	20	25	27	5	8
Responsiveness to members	14	16	24	23	14	13

Base: 55 respondents who have been members of both Visa and MasterCard for at least one year.
Source: American Banker

AN AMERICAN BANKER SURVEY

2 Bank Cards Rate Evenly on Service

By MICHAEL WEINSTEIN
Fourth of a Series

Bankers give Visa higher marks than MasterCard for consumer advertising and operations expertise, but they gave MasterCard a slight edge over its rival for product development, according to the *American Banker's* second annual credit card survey.

The two organizations were rated about even for responsiveness to members, the survey found.

Last June, the *American Banker* mailed 110 questionnaires to the nation's biggest financial institutions and top credit card banks. Sixty responses were received by mail or by telephone in the next several months. Fifty-five banks had been members of both Visa and MasterCard for at least one year, and that group served as the base for

Survey: Page 10 ➡

Hanover Puts Consumer Unit Up for Sale

By JED HOROWITZ

NEW YORK — Manufacturers Hanover Corp. has put its $3 billion consumer finance company on the auction block and is asking for more than $600 million, according to Wall Street sources.

Manufacturers Hanover Consumer Services, a 542-office network based in Huntingdon Valley, Pa., earned from $55 million to $60 million in 1987 and has a book value of about $315 million, said sources who have studied the company. Goldman, Sachs & Co. has been retained to help sell the finance unit, they added.

The decision to sell the profitable business reflects Manufacturers Hanover's scramble to raise equity following a $1.1 billion loss in 1987.

Consumer finance companies have been selling at more than two times book value or ten times earnings, according to one banker. Several bank

Hanover: Page 14 ➡

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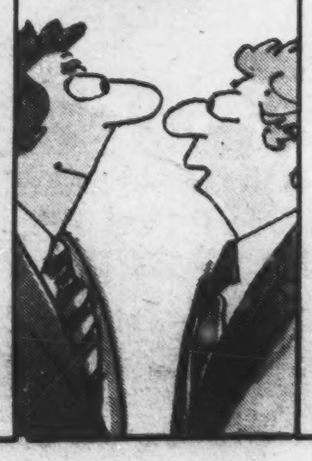

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Dividends: To Cut or Not to Cut

High Cost of Capital May Mean Lost Income for Bank Shareholders

By CHRISTOPHER C. OHMAN

WITH THE august J.P. Morgan & Co. losing its coveted AAA bond rating this month, the post-depression era of bedrock stability for banks has formally come to a close.

Events of the past 10 years — including deregulation, the Latin American debt crisis and the Federal Reserve's new risk-based capital requirements — have created an urgent need for banks to raise substantial new capital.

However, bank securities have fallen from their former gilt-edged status to become increasingly volatile and risky. And, for the immediate future, the Oct. 19 stock market crash has prevented most banks from looking to the equity market for new capital.

Citicorp surely counts its blessings that it went to the market last September, before the crash, with its $1 billion stock issue. Still, that issue cost Citicorp's shareholders 14.4% in dilution. If, after the crash, Citicorp wanted to raise the same amount of equity, its shareholders would have suffered dilution of about 23%.

If Citicorp must dilute its equity base by nearly one-fourth to raise substantial new capital, what choices do the weaker banks have? Bank of America paid dearly for the $350 million in new debt it raised last fall from the Japanese. Imagine what it would pay today for new equity.

Still, other banks might follow the example of Bank of America by adopting a simple measure to raise much-needed equity at no expense: Stop paying a dividend.

Indeed, the timing is excellent for such a radical step as cutting out dividends. With stock prices too low to allow most banks to issue new stock, the market would have sufficient time to absorb the bad news before banks would need to raise new equity from the market.

The banks might as well take another blow now, while reeling from the other blows they have taken. Indeed, one could argue that Bank of America's stock price suffered little as a result of canceling its dividend. This is because concerns about its underlying business were the driving force in the decline of BofA's stock price.

While waiting for the market to recover, banks would accumulate the dividends not paid, making their stocks more attractive to potential new shareholders.

A less painful alternative could be replacing a cash dividend with a stock dividend, though a stock dividend can be costly in terms of dilution.

Finally, raising new capital seems futile when combined with a generous dividend policy. Banks simply give back the expensive new capital in a remarkably short period.

Citicorp, for example, paid out over $300 million in common dividends in 1987, and will thus give back the $1 billion it raised last fall in just over three years. Adding insult to injury, Citicorp paid Merrill Lynch another $29 million to raise the new equity.

Little wonder that First Boston, in a January 1988 report on money-center banks, specifically recommended that banks continue to pay a dividend. Changing a dividend policy doesn't cost a penny.

Concern about shareholders is well placed, particularly the human impact on pensioners who rely on dividends — and this group would be very difficult to abandon.

Still, bank management teams cannot be faulted by their shareholders for the rapid convergence of several major events that undermined the foundations of the entire financial services industry.

Now that they are in this pickle, bank management needs to respond with new capital strategies as radical as the changes in their operating strategies.

Now that it is in this pickle, bank management needs to respond with new capital strategies that are as radical as the changes in their operating strategies.

Otherwise, bank shareholders will be replaced by new owners, such as foreign banks flush with cheap dollars. Several securities houses are now owned in whole or in part by such foreign institutions.

A host of pressures have combined to force banks to raise capital. With most banks presently frozen out of the market for new equity, they should stop paying a dividend. ■

Mr. Ohman is a vice president in the San Francisco office of a New York money center bank.

Loss of Investor Confidence Could Cost Even More

The following is excerpted from an article that appeared in the Jan. 15, 1988, edition of First Boston Equity Research.

□

AS A RESULT of events in December, investors have finally become fully aware of the equity need of most money center banks, a need that in many cases is massive.

While a portion of the necessary equity can be generated by retained earnings, utilization of tax-loss benefits and special gains, a major portion still has to be achieved through the sale of stock.

Offerings will be more difficult in the present environment than in the fall of 1987, and the potential per-share earnings dilution will be significantly greater because of sharply lower market prices.

We believe money center bank stocks will remain in a trading range with the low side being the lows reached in December. The upside potential however, is limited because of investor concern about how the recapitalization of the banks will be achieved and concern about the ability to maintain dividends.

In our view, the money center banks must maintain their dividends if they hope to be able to raise additional equity.

Payment of dividends is ultimately the decision of the respective boards of directors, but the decision is also affected by regulators. Under Federal Reserve policy guidelines, a bank must ask permission to pay dividends if certain earnings and net worth tests are not satisfied.

Under the earnings test, the current year's adjusted net income plus two years of retained earnings must exceed the dividend. Earnings are adjusted to reflect actual loan losses — not provisions for loan losses — and should not reflect an undue reliance on nonrecurring gains.

While a dividend reduction would act immediately to increase retained earnings, it might cause a negative response from the investment community.

The net worth test requires that the sum of retained earnings plus the reserve for loan losses less "bad debts" (those loans six months or more past due) must exceed the dividend payment. An important issue still being debated is whether loans to Brazil, where interest is more than six months past due, is included in the bad-debt deduction.

The board of directors' decision to maintain dividends is somewhat more difficult. This is especially true when considered in relation to core operating earnings and, possibly, placing loans to lesser-developed countries on nonaccrual status.

Given the banks' need for capital, the first reaction of a board is likely to be to reduce, if not eliminate, the dividend. From a financial sense even the elimination of a dividend is not enough to really solve the equity need.

While a dividend reduction would act immediately to increase the amount of retained earnings, it might cause a negative response from the investment community. It could result in the bank's having great difficulty in securing access to the equity market.

Confidence factors must also be considered because banking is a business that depends on confidence. A dividend cut, especially one for a money center bank, could significantly impair confidence — not only in a single bank but for the financial system in general. ■

Something to Say? We Want to Hear

The *American Banker* welcomes letters, comments, and observations from you, our readers, on issues that interest and are important to you.

We would like our pages to reflect as wide a range of views and opinions as possible — no matter how provocative or controversial. The key goal is to factor your views into our own thinking so that both our newspaper and the executives who read us can do a better job running our organizations.

In addition, we would like to read your responses to the points of view expressed by our columnists and guest writers. Are they on target? Who's right or wrong? What's your own opinion?

Wherever possible, we would like to print your comments. Please direct them to the editor, William Zimmerman, Banking Week, One State Street Plaza, New York, N.Y. 10004, and please include a daytime telephone number.

Remember, we need your views to be a true community newspaper.

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EXECUTIVE CHANGES

Fidelity Names Morgan Chairman

Bernard J. Morgan has been named chairman and chief executive of **Fidelity Bank,** Philadelphia's largest commercial bank. Mr. Morgan also has been named president and chief executive officer of Fidelcor Inc., parent company of Fidelity Bank and of Merchants Bancorp, which includes Merchants Bank NA, Allentown, Pa., and Merchants Bank, North, Wilkes-Barre, Pa. He succeeds **Harold W. Pote,** who has become president and chief executive officer of First Fidelity Bancorp., Fidelcor's new parent company. Mr. Morgan is vice chairman of First Fidelity. **Rosemarie R. Greco** continues as president of Fidelity Bank and **Carl J. Feichtel** continues as chairman and chief executive officer of Merchants Bancorp and Merchants Bank NA. Prior to assuming his new posts, Mr. Morgan served as deputy chairman of Fidelcor and Fidelity.

AURORA NATIONAL BANK, Aurora, Ill., has named **James E. Schwarz** controller, and **Earl J. Weincek** has joined the bank as director of business development. Mr. Schwarz, previously assistant vice president in accounting, will be responsible for the financial planning and reporting for the bank's operations. Mr. Weincek is responsible for customer calling and new business development. He spent five years at the Northern Trust Co. and was a vice president at Unibanctrust Co., Chicago.

FIRST CONSTITUTION BANK, New Haven, said **Edward M. Hall** had joined as senior vice president of product management and marketing. He has held various posts at Wells Fargo Bank, Bank of America, and, most recently, with First Interstate Bank, all based in California.

MERCANTILE BANK NA, St. Louis, has elected **Russell L. Whites** and **Thomas E. Wilcox** vice presidents. **Charles T. Franckle** has been elected senior vice president and asset-liability manager of Mercantile Bancorp., the bank's parent company. Mr. Franckle joined Mercantile last month from First City Bancorporation of Texas Inc., Houston.

SOVRAN FINANCIAL CORP., Norfolk, Va., has named senior executive vice president **Albert B. Gornto Jr.** president and designated him to succeed **C.A. Cutchins 3d** as chairman and chief executive officer as of April 1989. Mr. Gornto will continue to direct all staff functions for the holding company, including corporate finance. **Dennis C. Bottorff,** currently a vice chairman, has been named to the additional post of chief operating officer and will be responsible for the operation of the company's banking subsidiaries, including the newly created Sovran Financial Services. **Doyle E. Hull,** senior executive vice president and chief financial officer, has been named president of Sovran Financial Services, with responsibility for the operation of the company's financial services affiliates, investments, and for the coordinated delivery of various of the company's corporate products. **C. Coleman McGehee,** formerly president and chief operating officer, will continue as chairman of the holding company's executive committee. The new assignments will take effect on April 1 of this year. At the request of the board of directors, Mr. Cutchins, who will be 65 in July, will continue his active service with the company until its annual shareholders' meeting in April 1989.

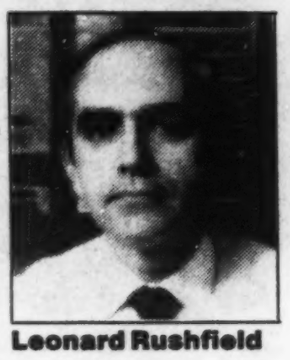
FIRST REPUBLICBANK DALLAS has named Thad Holt a senior vice president and director of finance and banking administration.

— **Franklin Smith**

GLOBAL PEOPLE

Rushfield Named to American Express Unit

NEW YORK — **Leonard H. Rushfield,** an international banker based in California for 15 years, has been named executive vice president and a director of American Express Bank International. He will direct the Western regional operations of the international banking subsidiary of American Express Bank Ltd. Mr. Rushfield will be based in Beverly Hills.



Leonard Rushfield

The international banking unit provides comprehensive, U.S.-based private banking service to international clients.

The new director joined American Express Bank International from Republic International Bank of New York (California), where he was president.

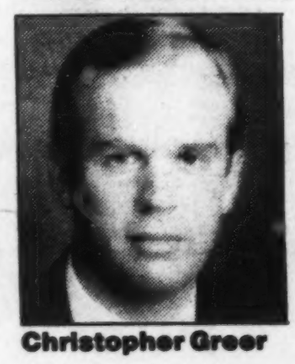
NEW MANAGING DIRECTOR: Barclays Bank PLC, London, said **John Quinton** will become managing director May 1. He will succeed **Peter Leslie,** who retains his position as deputy chairman.

MIDLAND APPOINTS DIRECTOR: Midland Bank PLC, London, has appointed **T. Jefferson Cunningham 3d** to its board of directors, bringing the total number of Midland directors to 21. Based in New York, Mr. Cunningham has been advising the British financial institution on its international strategy.

HELLER'S INTERNATIONAL ARM: Dennis P. Lockhart has been named president of Heller Overseas Corp., the international operating company of Heller International Corp., Chicago. Mr. Lockhart will be responsible for directing the company's network of wholly owned operating companies, affiliates, and joint ventures with leading financial institutions in 17 major European and Pacific Basin countries. He is the former vice president and head of Citicorp's debt-to-equity conversion program in the bank's Caribbean, Central American, and South American operations. Mr. Lockhart had been with Citicorp for 16 years.

INVESTMENT BANKING UNITS: Credit Lyonnais, Paris, and Commerzbank Aktiengesellschaft, Frankfurt, West Germany, have reorganized their jointly held EuroPartners Securities investment banking subsidiary into two independently owned units: CL GlobalPartners and Commerzbank Capital Markets Corp. Both are located in New York. **Karl Oellinger** and **C. Peter Tillmanns** are managing directors of Commerzbank Capital Markets. At CL GlobalPartners, **Thierry Magon de la Villehuchet** is chairman, **Austin J. Jones** is chief financial officer, and **Steven Resnick** is managing director.

BRAZIL REP: Norwest Corp., Minneapolis, has named **Christopher Greer** as its representative in Brazil, a new post. He will be based in Sao Paulo. Mr. Greer was with Chemical Bank in Brazil as its representative for corporate relationships and a director of its investment bank, Banco Noroeste. **Darin Narayana,** Norwest executive vice president, international, said Mr. Greer's primary responsibilities will be to help the international staff further reduce Norwest's total exposure in Brazil, manage remaining exposure, and increase nonasset-related fee income.



Christopher Greer

TREASURY HEAD: Bank Leumi Trust Co., New York, said **Robert Giordano,** vice president, has been appointed head of its treasury trading department. His responsibilities include foreign exchange trading, asset liability management, and management of the bank's portfolio.

— **Franklin Smith**

AN AMERICAN BANKER SURVEY

MasterCard, Visa Rate Evenly On Customer Responsiveness

Continued from Page 1

this part of the survey.

Industry observers were not surprised by Visa's edge in advertising.

"Visa's ads are just much more effective," said one consultant, who requested anonymity.

In interviews, bankers praised two of Visa's ads, both part of the campaign called "It's Everywhere You Want to Be."

One ad shows the Visa card being accepted at restaurants and travel spots that do not honor American Express. The other ad links Visa, which was one of only a few corporate sponsors of the Olympics, to the Games and concludes by reminding viewers that the Olympics "don't take American Express."

"People really liked the ads that struck out at American Express," said K. David Elgena, president of First City Bank-Sioux Falls in South Dakota, a subsidiary of First City Bancorporation of Texas Inc., Houston.

In contrast, industry observers said that MasterCard's recent ad campaigns have offered a fuzzy vision of its products.

A recent campaign — "Master the Possibilities" — featured celebrities discussing their ability to do what they want to when they want to.

In its newest campaign, "Choose To Make a Difference," MasterCard offers to make donations to six charities based on MasterCard sales volume. The amounts apportioned to each charity will depend on ballots submitted by consumers.

"The whole message here is charity dollars" rather than MasterCard's product, said a consultant with close ties to Visa, who requested anonymity.

MasterCard said its new campaign has "so much bank support" that it expects 80% of its cardholders to get statement stuffers about it. Member banks are responsible for sending out statements to cardholders.

MasterCard outspends Visa on advertising, according to *Advertising Age.* In 1986, Visa spent $35 million on U.S. advertising; MasterCard's budget was $52 million, according to the trade publication.

Although Visa and MasterCard run worldwide telecommunications networks, Visa scored higher for technical and back-office support.

"Visa has always paid more attention to detail and the planning of systems," said one consultant.

Another consultant with ties to Visa observed that Visa's perceived edge in operations may be a function of the powerful personality of Dee W. Hock, who served as Visa's chief executive officer from the card's inception in 1970 until 1984. Strong leadership promotes greater efficiency, the consultant said.

But such strong leadership may have worked against Visa when it comes to product development. Industry observers credit MasterCard's perceived advantage in that area in part to its willingness to discuss plans with members.

"MasterCard will call members periodically," said Mr. Elgena of First City Bank. "They like to bounce ideas off members. That might be why they came out ahead in product development."

MasterCard introduced a premium card before Visa, and of the two, only MasterCard offers a corporate credit card.

That the two associations scored about the same in their responsiveness to members surprised even Visa supporters.

"I'm surprised it came out a wash," said the consultant with ties to Visa. "Historically, Visa was viewed as tyrannical."

Visa declined to comment on the survey results.

He said Visa's apparent arrogance stems from the days when Mr. Hock was top man.

Next: Some banks are downplaying American Express products since the introduction of the Optima card.

DAILY FINANCIALS

Thursday March 3, 1988

Money Market

Federal funds range 6½%-6⁹/₁₆%
Prime rate (2/4/88) 8.50%
Discount rate FRB of New York (9/4/87) 6.00%

Call loans on securities, to brokers on stock exchange collateral 7.50%

Bankers acceptances offering rate, discount (3/3)
30 days: 6.42 60 days: 6.41 90 days: 6.41
120 days: 6.41 180 days: 6.40

Certificates of deposit, highest offering rate, at New York City banks (3/3)
14 days: 6.30 30 days: 6.45 60 days: 6.45
90 days: 6.50 120 days: 6.50 150 days: 6.55
180 days: 6.55 270 days: 6.75 360 days: 6.85

Commercial paper, dealer Aaa, discount (3/3)
30 days: 6.35 60 days: 6.48 90 days: 6.48

Commercial paper, directly placed, discount (3/3)
5-14 days: 6.25-6.25 15-29 days: 6.40-6.43
30-59 days: 6.40-6.45 60-89 days: 6.13-6.40
90-179 days: 6.13-6.38 180-270 days: 6.13-6.13

Treasury-bill rates, secondary market, bid (3/3)
90 days: 5.60 180 days: 5.85 1 year: 6.16

Eurodollar deposits, London bid (3/3)
Overnight: 6½ 7 days: 6⁹/₁₆ 1 month: 6⅝
3 mos.: 6⅝ 6 mos.: 6¾ 1 year:7

NIBOR: 6⅞ LIBOR: 6⁹/₁₆

Futures Markets

The Bond Buyer Municipal Bond Index

	3/3/88	3/2/88	2/25/88
Index	91.17	91.17	91.10
Yield to Par Call	7.96	7.96	7.99
Yield to Maturity	7.85	7.85	7.87

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade as the basis for long-term municipal bond futures contracts. It is an average obtained when the price of 40 select term bonds is divided by the amount at which each bond would be priced to yield 8%. The Index is computed daily and quoted in points and 32nds.

3-Month Treasury-Bill Futures (IMM)*

Delivery	High	Low	Settle	Chg(a)	Yld(b)
Mar. '88	94.37	94.35	94.37	+ 2	5.63
June '88	94.38	94.33	94.35	- 2	5.65
Sept. '88	94.18	94.16	94.16	- 1	5.84
Dec. '88	93.90	.....	93.89	unch	6.11
Mar. '89	93.65	.....	93.64	unch	6.36
Jun. '89	93.46	93.44	93.42	- 1	6.58

As of the previous day's close; Total no. of contracts traded: 5,303 total open interest: 24,795 and change in open interest: + 403

American Banker Index

Selected Money Center Bank Stocks*

			High	Low	Last
Mar. 3:	265.3	1988:	265.6	227.7	265.3
Mar. 2:	265.6	1987:	401.7	212.0	234.6
Mar. 1:	262.7	1986:	388.7	331.2	331.3
Feb. 29:	257.6	1985:	344.2	242.7	344.2
Feb. 26:	256.9	1984:	269.6	178.4	246.3

* Based on midday prices.